

Business Advice Series Part Five: Ten typical mistakes investors make in Hungary

Wisely submit to government's authorities

Besides the tax authorities - the subject of the last installment - there is a plethora of public authorities that a company is forced to deal with, and which have their own little bit role to play in the story of a commercially successful business venture. Though they may stoically deal with this leviathan in their everyday activities, once you ask them how they feel about Hungarian bureaucracy, businesspeople roll their eyes. But you cannot ignore the fact that you can avoid many problems by skillfully negotiating these matters, and a constructive attitude can cut many problems down to size.

The power of authorities

It is quite obvious how important this particular government office is when it comes to any activity requiring a permit or a licence. Anyone who wants to provide financial services, distribute financial products, broker insurance products or any kind of banking, has to obtain the required permits from the State Financial Supervisory Authority (PSZÁF), even if those activities are only a marginal fraction of the company's enterprises.

PSZÁF is an authority with teeth, because it has central power to oversee all banks, insurance companies, and financial services. In effect it has the authority to bring any conduct it views as illegitimate to an immediate halt. It is not only able to levy fines or impose sanctions; it can paralyse the activities of an entire company group.

Furthermore, every business knows how disruptive repeated visits can be from the likes of the labour authority or the fire inspectors. However you also should not underestimate the indirect influence of some other authorities. If a plot of land is a company's most important asset - because it is the most valuable - then an erroneous registration can have disastrous consequences. Bottom line: not taking the authorities seriously is something you cannot afford to do.

Playing it straight the best policy

Taking the authorities seriously also means not making the mistake of assuming you can "buy" an outcome to an official procedure that is to your liking. Certainly, corruption was and is a fact in Hungary (confirmed by the EU Commission's country reports and the surveys of Transparency International), but when the foreign investor tries to negotiate this slippery slope, he is bound to blunder. Hungary is governed by the rule of law, and there is no reason why you should use any other but lawful means to pursue your interests. The new European public procurement law, that came into effect when Hungary joined the EU, assures that the unlawful execution of projects can be retroactively declared null and void years later, with drastic financial consequences for all participants.

Beyond these matters, what should one keep in mind when dealing with the three most important authorities in Hungary: APEH (tax authority), the *VÁM Hivatal* (customs authority), and the land registry?

It is important to know that one can always request an accelerated procedure at the land registry, when the registration procedure seems to be hopelessly bogged down. When in doubt, it is always useful to have a personal meeting with senior officials at the registry, though one should undoubtedly be accompanied by a professional. If one gets the impression that the registry has made an entry based on something less

than the true facts (for instance a supposed beneficiary has been entered with an option or the exercising of an option is sanctioned), then taking strong action can simply stop the entire process. Nothing more can be done after that, but at least one's rights have not been violated.

The 'Business Advice Series' points out the recurrent pitfalls of doing business in Hungary and gives advice aimed at making your business more successful.